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INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

CAN WELFARE REFORM ELIMINATE POVERTY?

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Can Welfare Reform Eliminate Poverty?

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August 1978

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ABSTRACT

This paper describes the existing welfare system, outlines the problems with the system that have led to its being characterized as a "mess," and presents the principles on which Carter's reform proposals are based. It then analyzes the level and trend in poverty since 1965 and the anti-poverty effect of income maintenance programs in general and welfare programs in particular. The contradictions inherent in the goals of eliminating poverty and reforming welfare are discussed, and, in the final section, they are analyzed with reference to the proposed Program for Better Jobs and Income. We conclude that if poverty is to be eliminated, there must be a greater emphasis on increasing the employment or social insurance income, rather than the welfare income, of the poor.

Can Welfare Reform Eliminate Poverty?

The elimination of income poverty has been an explicit objective of public policy since the early 1960s. In the past fifteen years numerous policies and programs designed to improve the economic welfare of our poorest citizens have been implemented. Partly as a result of this antipoverty effort, a rapid increase in the number of welfare beneficiaries and the value of available welfare benefits occurred. Although this growth in welfare led to a reduction in income poverty, a "welfare crisis" emerged. The dimensions of the crisis were perceived differently by politicians, taxpayers, and welfare recipients, but all became convinced that the existing welfare system needed reform.

In August 1977, President Carter announced his Program for Better Jobs and Income as his answer to the "welfare mess." An examination of this reform proposal illustrates a fundamental point: welfare reform is neither a necessary nor a sufficient condition for the elimination of poverty. Indeed, the elimination of poverty may require a mix of policies that violate some stated objectives of comprehensive welfare reform.

THE WELFARE SYSTEM AND THE OBJECTIVES OF WELFARE REFORM

At present the welfare system, as generally thought of, consists principally of three income-tested programs: Aid to Families with Dependent Children (AFDC), with about 11.5 million recipients; Supplemental Security Income (SSI), with roughly 4.5 million recipients; and Food Stamps, with about 18 million recipients.[1] AFDC and SSI provide benefits in cash while

Food Stamps provide benefits in-kind. These are the programs that most welfare reform plans intend to overhaul.

In addition, there exist a number of other income-tested programs not directly affected by welfare reform proposals: certain veteran's benefits and pensions, housing assistance programs, Basic Opportunity Grants for higher education, and others. Finally, there is Medicaid, the largest income-tested program of all (currently about 25 million recipients), whose reform is addressed as part of the National Health Insurance debate.

These programs, plus the social insurance programs for which there is no means test, such as Old Age Survivors, Disability and Health Insurance, and Unemployment Compensation, provide a great deal of relief to the poor. In fiscal year 1977, $49 billion in public funds were spent on income-tested programs, and another $134 billion were spent on social insurance. About two-thirds of the $49 billion of welfare expenditures were financed by the federal government. These programs have expanded rapaidly since 1965 both in the number of recipients and in the average benefit per recipient. In 1965, $8.9 billion or 1.3% of GNP was spent on income-tested programs; this had increased to $39.4 billion or 2.8% of GNP by 1974. The programs successfully deliver their benefits to the poor: about 92% of AFDC benefits and about 83% of Food Stamp benefits go to those who would be poor in the absence of transfers. Although the current system has been characterized as a "mess," and although President Carter believes that the welfare system is worse than he had expected, it has been successful in targeting increasing amounts of relief to an increasing number of poor beneficiaries (see the next section for details).

Since the problems of the current welfare system have been evaluated and catalogued numerous times (Barth et al., 1974; U.S. Congress, Joint Economic Committee, 1974-76), this discussion will be very brief. First, the existing welfare system is inequitable. It treats people who have similar needs differently. A one-parent family of four living in Mississippi is entitled to $3071 in AFDC and food stamps in fiscal year 1978, while a similar family living in New York is eligible for $7354. In addition to the inequity itself, these geographic disparities encourage migration from low-benefit to high-benefit states. Secondly, welfare treats people differently who have similar needs but live in different types of families. In any of the 26 states without an AFDC program for unemployed parents, a family with two parents but no earnings becomes eligible for AFDC benefits only if the father deserts the family. If the father stays with the family, it will be eligible only for food stamps.

Besides discouraging marital stability and encouraging migration, the current system discourages work. As labor income rises, benefits fall and, as a result, the reward from working is diminished. Because some families participate in two or more of these programs at the same time, the total loss in benefits caused by an increase in earnings may almost completely offset that increase. In other cases, benefits are higher if an individual doesn't work than they are if he/she takes a job. And in some states a two-parent family of four receiving benefits from the AFDC program for unemployed parents suffers a loss in income if the father goes from a part-time job to a full-time job. In taking the job and leaving the AFDC-U program, he might also lose Medicaid benefits.

Finally, each of the welfare programs has different operating rules. In a single household, one person may receive food stamps and AFDC benefits while another receives food stamps and SSI benefits. Since each program has different rules, different accounting periods, and different notions of the filing unit, administration is complex. AFDC is administered by the states with federal sharing of payments, while SSI is a federal program with payments that the states can supplement.

Thus the welfare system, although it delivers benefits to millions of people, covers some people but not others, pays varying amounts of benefits to persons with similar needs, and is costly to administer. In addition, it contains adverse work and migration incentives, and encourages family break-up. Perhaps most seriously, it is too complex for many of the poor to understand, so they may not receive benefits which they need and to which they are entitled.[2]

The Administration's welfare reform proposals were to be governed by a set of twelve principles set forth by President Carter in May 1977. The principles emphasized the elimination of many of the problems within the welfare system. They included holding welfare costs down, providing work incentives and access to employment and training, reducing incentives for family break-up by extending eligibility to all persons, and simplifying and improving welfare administration. Only one principle, the eighth, addressed the issue of poverty, and it did so indirectly: "A decent income should be provided also for those who cannot work or earn adequate income, with federal benefits consolidated into a simple cash payment." Welfare reform was to provide jobs, higher incomes, and rewards for work. As such, it did not intend to eliminate

poverty through a cash assistance (negative income tax) program.

Why was the goal of eliminating poverty absent from President Carter's statement of welfare reform principles? The answer arises from the inherent conflicts involved in providing work incentives and poverty-level income guarantees, while simultaneously holding down program costs. There are three important parameters in any welfare program: the income guarantee provided to those with no income of their own, the rate at which this guarantee is reduced as earned income rises (the benefit reduction rate), and the total costs of the program. These three parameters are linked in such a way that the third is determined once the other two are specified. For example, if the government chooses an income guarantee of $3000 and a benefit reduction rate of 50%, all households with incomes up to $6000 will be eligible for program payments.[3] From this, we can derive the total cost of the program. If costs were higher than the amount budgeted, then to stay within budget limits the government would have to either restrict the guarantee, raise the benefit reduction rate, or restrict eligibility. Raising the tax rate to 75% would lower the break-even level to $4000 and reduce total costs. Or the government could lower the income guarantee to $2000, retain the 50% benefit reduction rate, and also reach a lower program cost with a $4000 break-even level.

In general, the higher the income guarantee and the lower the benefit reduction rate, the higher the program costs. Both higher guarantees and lower benefit reduction rates alleviate poverty. Higher guarantees ensure higher incomes to those who do not work, but they increase costs and may discourage work effort. Higher benefit reduction rates certainly discourage work. Lowering the rate promotes work effort,

and the increased earnings help reduce poverty, but costs are higher than they would be with a higher benefit reduction rate. Thus holding down costs and alleviating poverty are conflicting goals.

With this simple background to the mechanics of welfare reform, we can foreshadow the reasons that welfare reform is not likely to eliminate poverty. Carter's first principle of May 1977 states that the new system is to have "no higher initial cost than the present system." The next four relate to access to jobs and training and the encouragement of work. Carter's principles specify a holding down of both total program costs and benefit reduction rates. Once these two parameters have been chosen, the third, the income guarantee, is determined. In the current context, Carter's principles require an income guarantee that is below the poverty line and that cannot eliminate poverty for those who do not work. As will be shown below, income guarantees that are high enough to eliminate poverty would either increase program costs dramatically, or require a benefit reduction rate so high that work would be discouraged.

THE TREND IN POVERTY AND THE ANTIPOVERTY EFFECTS OF INCOME MAINTENANCE PROGRAMS

An analysis of the effect of welfare reform on poverty requires a review of the evidence on the trend in poverty and on the anti-poverty effectiveness of existing welfare programs. While such a task seems straightforward, it is not. Consider two recent statements on the trend in poverty. In the first, Martin Anderson (1978) uses a definition of poverty which accepts the official government poverty lines and adds to the money income of the poor the cost of taxpayer-provided, in-kind transfers, like Food Stamps, Medicaid payments, and public housing.

He asserts that,

> The "war on poverty" that began in 1964 has been won. The growth of jobs and income in the private economy, combined with an explosive increase in government spending for welfare and income transfer programs, has virtually eliminated poverty in the United States.[p. 15]

Martin Rein (1977), in contrast, focuses on inequality, a relative measure of poverty.

> My argument is that social policies are by themselves unable adequately to offset the antiegalitarian forces in the economies of advanced industrial nations. Despite the enormous rise in public expenditures, specifically in transfer outlays..., a significant redistribution did not occur, as the share of income going to the bottom fifth remained stubbornly unchanged. [p. 569]

Table 1 reveals the source of these conflicting conclusions. The incidence of poverty among persons is shown for three measures: the official measure, a relative measure,and the official measure after adjustments have been made for the receipt of in-kind transfers and for the underreporting of money income.[4] It is with reference to a measure like the adjusted official measure that Anderson concludes that there is no longer a poverty problem, that all that needs to be done has been done. Similarly, the constancy of relative poverty reinforced Rein's view that, with traditional welfare policies, nothing can be done. The official measure produces a result that lies within these two views. While poverty has declined significantly in the recent past, a serious poverty problem remains.

Table 1

The Incidence of Posttransfer Poverty Among Persons

Year	Official Measure	Relative Measure	Official Measure, Adjusted
1959	27.4%	n.a.	n.a.
1965	15.6	15.6%	n.a.
1968	12.8	14.6	10.1%
1976	11.8	15.4	6.5

Source: Plotnick and Danziger (forthcoming).

Arguments about the relationship between welfare reform and poverty reduction can be made with reference to any of the series in Table 1, but we have based our analysis on the official measure of poverty, for two reasons. First, data on this measure are readily available. For example, the effect of a welfare reform plan on official poverty is published by government sources, while the effect on relative poverty is not. Second, the substance of the analysis is not changed by the use of the other series. If welfare reform cannot eliminate poverty according to the official definition, it certainly will be less successful according to a relative definition. Moreover, a major part of the analysis that follows is concerned with poverty that exists before the receipt of welfare income, so that many adjustments to the official measure become less relevant.

Even if one accepts the in-kind measure which shows the lowest aggregate incidence of poverty, one cannot ignore the disparities that exist among various groups in the population. When a disaggregated view of the incidence of poverty is taken, as in Table 2, it is impossible to conclude that poverty has been eliminated for blacks or for women. The adjusted official measure, which guides Anderson's view, still shows that about a third of persons living with black female heads, about one in seven living with white female heads, and one in ten living with black male heads are poor.

Because the data in Tables 1 and 2 are based on posttransfer income, we cannot know whether the observed decline in poverty according to the official measure is due to greater success by the poor in the market place or greater reliance on government transfers. Table 3 shows poverty before

Table 2

Incidence of Posttransfer Poverty Among Persons by Characteristics of Head of Household, 1974

Head is:	Official Measure	Relative Measure	Official Measure, Adjusted
White male	6.0%	8.3%	4.1%
Nonwhite male	17.0	23.5	11.5
White female	27.2	34.3	13.9
Nonwhite female	54.6	64.1	30.2

Source: Plotnick and Danziger (forthcoming).

all government transfers, the effect of social insurance transfers (Social Security, Unemployment Compensation, Workmen's Compensation, etc.) in column 2, and of welfare (AFDC, SSI, and General Assistance) in column 3. The table reveals that, although posttransfer poverty has declined, it has not done so because, in the words of Lyndon Johnson, the programs of the War on Poverty provided "a hand up" so that the poor could earn their way out of poverty, but rather because government transfers increased. On the basis solely of market income, the incidence of poverty was 21% in both 1965 and 1976 for all persons and about 16% in both years for persons living in households where the head is not aged. Posttransfer poverty declined only because the size and the antipoverty effectiveness of both social insurance programs and welfare programs increased. By 1976, 9.2% of all persons whose pretransfer income was below the poverty line were removed from poverty by government transfers. Social insurance programs were six times as effective in eliminating poverty as were welfare programs for all persons, and four times as effective for the nonaged.

The table reinforces the obvious: the volume of earnings in the economy is vastly larger than the volume of social insurance transfers, while the volume of social insurance transfers is vastly larger than the volume of welfare transfers.[5]

Changes in the level of prewelfare poverty are of particular interest in any discussion of welfare reform, since it is to the prewelfare poor that welfare programs are targeted. In addition, many people view the "real" poverty problem as centering upon the prewelfare poor. Those who are taken out of poverty by social insurance benefits, by their own market incomes, or by both are viewed as having taken themselves out of poverty.

At the same time, taking those who remain poor out of poverty by welfare is judged an unsatisfactory, second-best solution to the poverty problem.

In 1965 about 16% of all persons were prewelfare poor (from Table 3). Largely in response to a strong labor market, but also owing to increased social insurance transfers, prewelfare poverty fell to 13.6% by 1968, and then declined to 13.1% in 1976.

Posttransfer poverty remains because the poor do not receive enough market income in the first place, and then not enough in transfer income in the second place, to remove them from poverty. The fact that some do not receive the transfers to which they are entitled is part of the problem, although by 1976 80% of the pretransfer poor received a government cash transfer (if in-kind transfers are considered, this figure rises to about 90%). The income maintenance system reaches the poor, but it does not provide them with enough income to escape from poverty.

A comparison of the average size of welfare and social insurance payments emphasizes the insufficiency of welfare and reveals why so many more persons are removed from poverty by social insurance than by welfare. Table 4 shows that fewer households receive welfare than receive social security or other social insurance transfers, and that the average welfare payment is smaller than the average for these other transfers. The existing transfer system is so broad that 42% of all households received some form of cash transfer, which averaged $2803 in 1974 (when the mean household income from nontransfer sources was about $11,000).

Particularly important in any discussion of welfare reform is the situation of female family heads. They are the group at the center both of

Table 3

Antipoverty Effectiveness of Government Transfers[a]

Category	Pretransfer Income (1)	% Removed from Poverty by Social Insurance (2)	Welfare Programs (3)	Posttransfer Income[b] (4)
All persons				
1965	21.3%	5.0%	0.7%	15.6%
1976	21.0	7.9	1.3	11.8
Households with head less than 65 years old				
1965	16.6	1.9	0.6	14.1
1976	15.8	3.4	0.9	11.3

Source: Plotnick and Danziger (forthcoming).

[a]Using official measure of poverty.

[b]Col. 4 = Col. 1 - Col. 2 - Col. 3.

Table 4

Average Size of Cash Transfers, 1974

Program	% of Households Receiving Transfers	Mean Transfer
Social Security	25.6%	$2686
Other social insurance[a]	17.3	2024
Welfare[b]	8.1	1701
Any transfer	42.0[c]	2803[c]

Source: Plotnick and Danziger (forthcoming).

[a]Includes income from Unemployment Compensation, Workmen's Compensation, government employee pensions, veteran's pensions and compensation.

[b]Includes income from AFDC, SSI, and General Assistance.

[c]The mean transfer for all transfers is higher than the mean for any category, and the percentage of households receiving income sums to more than 42% because many households receive multiple transfers.

the "welfare mess" and the poverty problem. In 1974, about one-third of all females between the ages of 25 and 54 who headed families that included children received welfare income that averaged $2379, while their own earnings averaged $1110. Despite this aid, 69% remained poor.

The data in the tables explain how we could "be doing better, but feeling worse" about the poverty and welfare problems.[6] Increases in social insurance transfers and welfare transfers since the War on Poverty have produced a decline in the incidence of posttransfer poverty--we are doing better. Yet the reduction in poverty did not come about because more households earned their way out of poverty. Pretransfer poverty did not decline between 1965 and 1976. More people received higher government transfers, which increased the welfare rolls and produced the "welfare crisis" at the same time as they reduced poverty. Since our society places such a high value on self-reliance and work, the fact that so many people remain poor before transfers and that so many receive welfare makes us feel worse.

To the conflict among welfare reform goals cited above, we must add the conflict between the goals of reducing the welfare rolls and eliminating poverty. The contradiction arises because we have not reduced the pretransfer poverty count. That count cannot be reduced by welfare; it can only be reduced by programs that provide work incentives or job opportunities for the poor. Thus the neglect of poverty and the emphasis on work incentives and controlling welfare costs in Carter's statement of principles is an indication that we are approaching the limits of our tolerance for the current transfer system. While a few years ago

policy seemd to be moving toward a universal income guarantee that would eliminate poverty for all citizens, we are now moving toward a two-track system that distinguishes between those expected and those not expected to work. Only by a plan that eliminates poverty through work can we both "do better and feel better." It is from this viewpoint that we review the recent welfare reform proposal.

THE PROGRAM FOR BETTER JOBS AND INCOME (PBJI)

In August 1977, Carter announced his plan for welfare reform, called the Program for Better Jobs and Income.[7] The plan would consolidate three major components of the current welfare system and provide, for the first time, a nationwide minimum federal cash payment for all the poor. It also pledges to provide a public service job for some of those able and expected to work, as an integral part of the welfare system. Earnings, welfare, manpower policy, and taxes would be interrelated through an expanded earned income tax credit and a new, nationally uniform system of basic income support payments.

Compared with the current system, large gains have been claimed for PBJI: (a) Welfare would be integrated with earnings and both coupled with the tax system. (b) Consolidation would streamline administration. (c) Work would always pay more than welfare. (d) Family stability would be enhanced by allowing married couples with children to benefit in the same manner and to the same extent as single parent families. (e) The relatively high national minimum payment would reduce incentives for migration from low- to high-benefit states. (f) States and localities would be provided fiscal relief.

Several important attributes of the Carter plan are already present in the current system. The Food Stamps Program, for example, works in a manner which is similar to the work benefit and income support provisions of Carter's proposal. As in the proposal, Food Stamp benefits depend on the amount of earnings and other income of the family and on family size, and accrue to all types of families. The program includes a work test. Similarly, the SSI program, in operation since 1974, has rules of operation and a uniform national minimum payment much like those of the income support provisions of the Carter proposal. However, the SSI program currently serves only the aged, blind, and disabled, while income support in the Carter proposal would go to the entire population. Also, the earned income credit, an important component of the president's proposal, is already in place.

The details of the Carter Program for Better Jobs and Income can best be understood by focussing seriatim on its four major components: job opportunities, the work benefit and income support provisions for those expected to work, income support payments for those not expected to work, and tax reductions through the earned income tax credit.

Job Opportunities

First, $8.8 billion would be set aside to create up to 1.4 million public service jobs for adult workers with children who cannot find a private job. Most of these jobs would pay the minimum wage, $2.65 now, and about $3.30 by about the time the program would begin in 1980. Those eligible for the jobs would be adults--one per family--who would be

placed in the "expected to work" category and who were unable to find a regular private or public sector job.

In determining which families have an adult who is expected to work, there would obviously be administrative discretion. But, basically, one member of all families would be expected to work unless all the adults in the family fall into one or another of the following categories: aged, blind, disabled, or mothers without husbands (and fathers without wives) whose youngest child is less than 7 years old. Mothers without husbands (or fathers without wives) whose youngest child is between 7 and 14 years would be expected to work part time, while such parents whose youngest child is over 14 would be expected to work full time. Because earnings from employment in a private job would be accompanied by a subsidy--the earned income tax credit (EITC)--in addition to the work benefit, a worker would always find a private job more lucrative than a public job, and thus would have an incentive to use the public service jobs only as a last resort.

Work Benefit and Income Support for Those Expected to Work

Earnings of low-wage workers would also be supplemented by the cash support system. Unlike the benefits from the EITC, however, the cash support system would add to the income of those in the special public jobs as well as all other job holders. The size of the cash supplement would depend upon earnings, other income, and family size. Cash supplements for a four-person family would start at $2300 if a family had a member expected to work, and remain at that level as long as earnings were less

than $3800. The cash supplement would decline by 50 cents for every dollar of earnings in excess of $3800, becoming zero at $8400. In addition, the family with regular earnings would receive benefits from the EITC to supplement both earnings and income support benefits.

Income Support for Those Not Expected to Work

For a family of size four in which no one was expected to work, a basic income support payment of $4200 would be granted. Thus, the maximum support payment for a family not expected to work would exceed by $1900 that for a family expected to work. For this group, benefits would fall by 50 cents for every additional $1 of earnings right from the first dollar earned--there would be no $3800 "disregard" as would be the case for those expected to work. The not-expected-to-work group would include most of the current AFDC recipients and all SSI recipients, and for many of them benefits would increase under the proposed program.

Tax Reduction

The final component of the plan is tax reduction. Since 1975, we have had a tax credit for low-earnings families with children--the earned income tax credit. The EITC supplements regular earnings by 10 cents for each additional dollar earned up to earnings of $4000, and then reduces the credit by 10 cents for each dollar earned after $4000 (until the credit is reduced to zero). Under the new program, benefits from this credit would be increased for all familes with regular earnings (that is, earnings from jobs other than the special public jobs) of more than $4000 but less than $15,620. Indeed, all families

earning between $8000 and $15,620 would receive a benefit for which they are not now eligible. More than half of all families would pay lower taxes because of the increased earned income tax credit.

Under the Carter plan, the income guarantee for a family of four in which the head is not expected to work, $4200, is about 65% of the poverty line for that family. Only for the aged, blind, or disabled does the cash assistance payment reach the poverty line when no household member is employed. Those who do not work (and are not aged, blind, or disabled), even if they are not expected to work, will remain poor. In fact, many current welfare recipients would suffer income losses if their states were not required to "grandfather" their benefits for a three year period. Under the plan, individuals who were newly enrolled in welfare and who did not work would receive PBJI benefits that were no more than half the poverty line and less than what they would receive under current policies.

Although many current recipients who do not work would not benefit under the Carter plan, the extension of cash benefits to all persons would increase the incomes of many who are currently ineligible for cash assistance--childless couples, unrelated individuals, and two-parent families in states without an AFDC program for unemployed parents. These persons are currently eligible only for food stamps, and possibly for unemployment insurance. For example. a childless couple currently eligible for $636 in food stamps would be eligible, under the new plan, for $2200 in cash assistance if neither member could find work. While this payment is only about half the relevant poverty line, it represents

a tripling in available benefits. In general then, PBJI would raise the incomes of the poor, but would not remove them from poverty unless they work.

For those who work, PBJI would represent a significant departure from previous welfare policies. Because the program emphasizes the provision of jobs and the supplementation of earnings, all those who work at low wages, regardless of family composition or region of residence, would have higher incomes, and in many cases, be taken out of income poverty. For example, the head of a family of four who works full-time, full-year at a minimum-wage job earns only 80% of the poverty line. From PBJI, however, he/she would receive a cash assistance payment and an earned income tax credit, so that total family income would exceed the poverty line by about 15%. These two components of the Carter plan should result in the elimination of poverty for those who work full-time as well as raise the take-home pay of many of those who are not officially in poverty but who work at below average wages. In fact, anyone who works about three-fourths of the year at the minimum wage would have his/her family income supplemented up to the poverty line.[8]

Our assertion, that PBJI benefits mainly those who are aged, disabled, or working, is validated by data presented by the Congressional Budget Office.[9] If PBJI were to become law, poverty (in 1975) would decline from 11.2% of all families to 9.0%, and the number of families in poverty would be reduced from 8.3 million to 6.7 million. Almost half (47%) of the additional 1.6 million families taken out of poverty have aged or disabled heads; another 40% have a working head (28% work full-time; 12% part-time).

PBJI provides a nationally uniform, minimum, cash payment for all individuals. As such it would become our first universal, cash, guaranteed annual income (Food Stamps is a universal guaranteed income in-kind, while SSI is a categorical, guaranteed income in cash). PBJI would be an important change in our welfare system, but it would not solve the poverty problem.

The constraints imposed by the May statement of welfare reform principles prevented poverty-line income guarantees from being proposed. PBJI could not even stay within Carter's first principle of holding costs to their current level. The Budget Office estimates that PBJI would increase costs by 1982 by $14 billion dollars and provide cash assistance for almost 30 million individuals. To raise the benefit structure to the poverty lines would add an additional $43 billion and an additional 20 million recipients (U.S. Congress, Congressional Budget Office, 1978).

PBJI reforms welfare, but does not eliminate poverty. To do so, given an economy in which one-fifth of all persons live in households with pretransfer incomes below the poverty line, would require an expansion in welfare beyond the bounds of political feasibility. If poverty line guarantees are not politically viable (except for the aged, blind, and disabled), then a two-track approach, which distinguishes between those expected and not expected to work, represents an attractive alternative. The provision of special public service jobs and the expanded supplementation of wages refocus the current approach to the poverty problem. That the federal government accepts responsibility for providing jobs and supplementing low wages shifts the onus of poverty from the unemployed and the working poor to the malfunctioning of the labor

market. PBJI's thrust differs significantly from that of the anti-poverty programs of the 1960s that focused on the deficiencies of individuals and attempted to change the personal attributes of the poor. PBJI does not change the poor; it provides jobs and/or cash assistance.

Critics have attacked the program's distinction between those expected and those not expected to work as an outdated poor-law categorization between the deserving and undeserving poor. According to this view, PBJI represents a repressive tightening of the rolls and an attempt to coerce individuals from the welfare rolls onto the work rolls. Some of these same critics, however, argue that the work motivation of the poor does not differ from that of the rest of society--that the poor want to work. These two views are inconsistent. For if the poor want to work, then a welfare program which requires work is not punitive as long as the program accepts the responsibility for providing work opportunities.

PBJI does just that. If the poor want to work--and there is no evidence to the contrary--then the provision of jobs should increase their economic position. If an unemployed family head wants to work, but cannot find a regular private- or public-sector job, he/she must either be offered a special public service job or paid the cash assistance benefit that would accrue to a similar family in which the head was not expected to work.[10] Although the jobs pay only the minimum wage, when combined with the cash assistance payment they provide incomes that exceed the poverty line.

In addition, under PBJI, a family is not denied aid even if the head refuses to work. Consider a two-parent family with two children, in which

the head is expected to work. If the head refuses, only he/she is excluded from the rolls, and the cash assistance payment is reduced from $4300 to $2300. Yet $2300 still exceeds the benefits that such a family could expect under the existing system. If the head of such a family refuses to search for work, the family is currently excluded from all benefits--including Food Stamps or Unemployment Compensation.

PBJI raises income but does not eliminate poverty for those who do not work, significantly reduces poverty for those who work a substantial part of the year, and provides a work opportunity yielding an income above poverty level to family heads who cannot find a regular job.

The elimination of poverty is a goal that can be achieved only at the expense of Carter's first principle of welfare reform--holding down costs. The two most direct ways to expand PBJI from a welfare reform proposal to an antipoverty one as well are to raise income guarantees to the poverty line for those not expected to work and to provide a public job to all those who want one (to remove the cap on the number of jobs and their restriction to heads of household with children).[11] The former change might reduce work--if those not expected to work do so under PBJI in response to their below poverty-line guarantee. But the latter would increase work, and probably by a larger amount, so that poverty reduction and the encouragement of work do not conflict.

If the program cost constraint is binding, then welfare reform cannot eliminate poverty. Even if we could eliminate poverty through welfare, we would still have achieved only a second-best solution. Beneficiaries would clearly be better off, but prewelfare poverty would

remain (although posttransfer poverty had been eliminated). Successful welfare reform could mitigate many of the defects of the current system, but could not end economic dependence on welfare.

We have argued that welfare reform cannot eliminate poverty because poverty-line guarantees exceed current cost constraints, and that even if this constraint were removed, a welfare problem would remain. This suggests that it is time to focus more carefully on two other means to reduce poverty--changes in the labor market that currently generates an unacceptably high level of pretransfer poverty, and/or an expansion of the social insurance system to cushion a greater variety of income losses.[12]

NOTES

[1]This section draws heavily from Danziger et al. (1977).

[2]Estimates of the percentage of eligible persons who do participate range from only about 50% for Food Stamps and SSI to about 90% for AFDC.

[3]The level up to which benefits are paid, the break-even level of the program, can be found by dividing the income guarantee by the benefit reduction rate, when the latter is constant. There are more complex plans in which the benefit reduction rate varies and in which some initial earnings are not subject to that rate.

[4]The "incidence of poverty" among a specific group of persons is the percentage of persons in that group with incomes below the poverty line. For example, in 1975 there were 17.8 million poor white persons out of a total white population of 183.5 million. The incidence of poverty among whites was, therefore, 17.8/183.5 = .097 or 9.7%.

Both the official measure and the adjusted measure use the Social Security Administration poverty lines. They differ only in what is included as income. For a complete discussion of these issues, see Danziger and Plotnick (1977).

[5]If in-kind transfers are counted as income, the antipoverty effectiveness of welfare programs would increase, but it would still fall short of the effect of social insurance transfers (Plotnick, 1978).

[6]This phrase was coined by Aaron Wildavsky (1977) with respect to health policy.

[7]We discuss the specifics of PBJI not because it will become law--it almost certainly will not--but because it is an example of the evolution toward a welfare system that emphasizes work incentives over poverty reductions. The program's title is indicative of this concern.

[8]This is true only for families with children. Families with children qualify for the earned income tax credit and for exemption of the first $3800 of earnings from the benefit reduction rate. Without these two provisions, unrelated individuals or childless couples who do not work full-time may still receive incomes below the poverty line.

[9]Reischauer, 1977, Table 4(a), p. 18. These estimates assumed that states will chose to supplement the PBJI benefits up to their current cash assistance and Food Stamp benefit levels.

[10]The program, for budgetary reasons, does not provide a job for anyone who wants one. Rather, it sets a target number of jobs and provides them only to households with children. If PBJI were to become an antipoverty program, it might be expanded to provide a job to anyone seeking one, but this would increase the demand for jobs to about 6.5 million and program costs by $37 billion.

[11]Although the tone of this discussion has been optimistic, the difficulties of actually administering a two-track system or of providing special public jobs should not be minimized. Some of the difficulties are reviewed in Haveman and Smolensky (1978) and in U.S. Congress, Congressional Budget Office (1978).

[12]For example, in addition to providing for the income losses due to retirement, death and disability, social insurance could provide for income losses due to family disruption.

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